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Major Hower in Overseas Service

His History of Macy's Soon to Be Distributed to Members of the Society

Within the next month members of the Business Historical Society will receive a copy of *History of Macy's of New York, 1858-1919: Chapters in the Evolution of the Department Store,* by Professor Ralph M. Hower. Recently commissioned a Major in the American Expeditionary Force in Europe, the author is in service abroad as historian of the Quartermaster Corps. Major Hower was formerly a member of the Council and also Clerk of the Society, the latter position being now filled by Dr. George F. F. Lombard, who is also Executive Secretary of the Society. Since Major Hower was called away before his study of Macy history had been completed, it was decided to publish his work in two volumes, the first to terminate at 1919, the second to come down to the present. It is the first volume which is now in the press.

This book on Macy's is a study in the history of the department store, a retailing institution in the development of which America and indeed Macy's were leaders. Major Hower writes about Macy's against the background of the expanding economic life of the past three-quarters of a century and of the general developments in retailing and the department store.

The author sees the development of the department store as one thread in the weaving of the fabric of industrial capitalism. Macy's founder, Rowland H. Macy, as a petty capitalist started a small dry goods store in New York City in the 1850's; from this beginning grew a huge concern specializing in retailing, which is today the world's largest department store. Macy's has worked in an intensely competitive field in an intensely competitive business system—in its price policy it has been the very epitome of industrial capitalism. Unlike countless competing firms, it has survived and in surviving has maintained its independence of financial capitalists. Major Hower's book analyzes the administrative policies and management methods which led to this notable success.

The story, though broad in its perspective, is focused upon the decisions and the efforts of the men and women who have constituted Macy's. Notable among these, of course, were first the founder, R. H. Macy, who had been a whale fisherman, a forty-niner, a western land speculator, and a small-town general storekeeper, and then three generations of Strauses, the second of which made the famous Macy's of our day. The work of employees is also shown, from that of Margaret Getchell La Forge, who was the first store superintendent, to the little cash girls and many others of the rank and file of the Macy employees.

The book contains some early operating data which will have a special appeal to students of retailing and to present-day store executives. For example, in referring to a table which contains operating results for 1872-1876, the author says: "The importance of this series must not be overlooked. So far as now can be discovered no similar data concerning retail operations—one might almost say no factual data of any kind—have ever been published for the period before 1900."

Superior Methods Created the Early Chain Store

Too often the "why" of early chain store success has been glibly explained in terms of present-day conditions. The following abbreviated list is, I believe, typical of the factors advanced to explain the impressive position of the chain store in our distributive system:

1. Greater skill in management due to the greater opportunity for specialization.
2. Greater financial strength and power in buying.
3. The possibility of using certain advertising media which are not adapted to the needs of independent retailers.
4. The possibility, through large scale operation, of developing a prestige such as the average small merchant can rarely cultivate.
5. The ability through integration to eliminate selling and buying costs which are inevitable when manufacturers, jobbers, and retailers are separate entities.

Undoubtedly these factors contribute to the continued success of chain stores, but in no measure can they explain the origin and early growth of the chain store movement. The sum of $322 provided all the merchandise for the counters of Frank Woolworth's first store in Utica; Seymour Knox and Woolworth "sank themselves" to the extent of $2,492.75 to provide merchandise for the Erie, Pennsylvania, store, which was the fifth in the chain. Mass buying, specialized functions, and financial strength cannot explain the growth of the Woolworth chain from one to five units while the stores of the Smiths and the Joneses on Main Street were failing at a rapid rate.

The only way to shed light on the causes of early chain store success is to inquire into the methods used by the stores which were the seeds of the chain store movement; that is, the case method must be used to analyze the business policies and methods of the single stores that developed into chain stores.

In the period of chain store beginnings—roughly, 1870 to 1914—

The First Grant Store, Opened by William T. Grant in 1906 at Lynn, Mass.
Since then the chain has grown until it now includes 493 stores in all parts of the United States

a number of external factors were affecting the trend of retailing. Among them were the urbanization of the country as a whole, the decline of the personal factor in selling (brought about in part by the rise of the mail-order house), the inefficiency of the distributive system of the time, and the rapid increase in mass production. But the impact of these factors was available to all retailers. Why was it that some retailers rode in on the wave while others were engulfed and still others sank slowly in calm waters? This article will attempt to point the way to an answer to this question.

The first factor involved in building the foundations for a chain of stores was the presence of a man and an idea. It is not mere coincidence that the early history of chain stores was intrinsically tied up with success stories of individuals. Nor are the Woolworths, Grants, and Kresges exceptions. Most successful chains have a similar story, a beginning bound about the incentive and work of an individual. Two examples will illustrate this point.

Miss Cora Dow was the daughter of an old-school drugstore keeper in Cincinnati. In her childhood she learned to wash bottles, sweep the floor, keep the books, and run errands. She became the first licensed woman pharmacist in Ohio. Long before her father died, she conceived the idea of a cut-rate drugstore—just as Kresge had thought of a cut-rate tinware shop. When her father died, she banished the red and blue globes and stocked her counters with low-priced toilet goods. Her idea backed by her own work caught on, and by 1914 she had eleven stores comprising the Dow chain drugstores.

A more familiar example concerns the beginnings of the Kroger Grocery and Baking Company. Barnard Kroger had become self-supporting at the age of thirteen. After brief periods of employment in various occupations, he became a clerk in a store run by two partners whose capital had dwindled from $3,500 to $600. The partners in disgust offered to let Kroger run the store. He made $3,000 net profit the first 11 months and opened his own store in 1882. This store made a profit in spite of a train wreck which ruined his delivery wagon and killed his horse and a flood which left his entire stock under mud. This successful store was the first of the 4,000 stores now included in the Kroger chain.

These examples illustrate that an indispensable factor in early chain store history was the presence of a man or woman with an

idea and the courage and ability to follow through with the idea.

In the beginning the idea was a simple gauge of consumer needs. Frank Woolworth set up five-cent items on a sewing table in Moore & Smith's department store in Watertown, N. Y., and watched them disappear. W. T. Grant, while working in a department store, noticed, as he explains it:

> . . . a little counter, not much larger than an office desk, where a brilliant display of inexpensive jewelry was bringing in more net profit than my big pet shoe department. Thus the discovery I made was not remarkable at all. The store that employed me knew that it did not make as much on a shoe dollar as it did on a jewelry dollar. Jewelry just happened to sell faster, absorbed much less capital, was less expensive to sell, and required less space.

But the idea by itself was not enough to bring forth a new distributive mechanism. The idea had to be supported by a method, and it is the method that concerns us more here.

The tea of the Great American Tea Company was no better than the tea of its competitors; the pots and pans of Woolworth were no better than the pots and pans of his competitors. But in both cases they sold for less. There is no doubt that the emphasis was on price appeal. As stated by a former president of the Woolworth company: "Each customer who enters a 5-and-10-cent store becomes a rich man—for the moment. He says to himself, 'Anything I see and want I can buy.' "

We are interested here in discovering how these incipient chain stores—and remember, the incipient chain store was a single independent store—could sell at lower prices than their competitors. W. T. Grant, a pioneer in the chain store business, explains how it was done:

> Taking 100 as a unit, I allowed, let us say, 5 for rent, 5 for help, 5 for miscellaneous expenses, and 10 for supervisory services and profit—a total of 25 for all charges, leaving a balance of 75 for merchandise. The unusual thing about this is the fact that I included the item of profit as part of the overhead expense. Then, my overhead expense and profit having been provided for, I was free to concentrate all my attention on how much I could get the consumer for a dollar. I knew the limit I could pay for merchandise, and being unwilling to depart from that figure, I found that manufacturers cooperated to adapt themselves to my requirements, which in turn reflected better values for my customers.

It is evident that Grant was a better buyer than the proprietor of the store next door.

Some examples from the history of the Woolworth company may illustrate that better buying consisted, in part at least, of not attempting to save on shoe leather. Woolworth's first stock of forty items constituted almost the entire field of low-priced variety merchandise. One of the very first psychological lessons learned was that the 5-and-10 business was faddish and promotional—new lines of goods had continually to be added. Woolworth set out to find those new lines of goods. Spelman Brothers & Moore (a wholesale house) could not keep Woolworth's counters filled. So by 1880, Woolworth's time was spent almost entirely in hunting up bargains—a possibility open to any merchant in his position. But other merchants did not find what he found.

In 1880, Woolworth discovered Christmas tree ornaments at Meyer & Schoenaman's importing house in Philadelphia. But he underbought—most of Woolworth's "genius" came from mistakes made and experience gained. He said of this:

> In two days they were all gone, and I woke up. But it was too late to order more, and I had to turn away a big demand. Next season I was on hand early with what I considered a large order, but not large enough. They proved to be best sellers in my stores for the holidays.

But the shadow of a jobber often fell between Woolworth and the goods he was trying to sell. A jobber's profit could raise the cost sufficiently to take it off Woolworth's counters. Therefore, if he wanted to keep Christmas tree ornaments as his holiday best seller, he had to find a manufacturer who could supply him. In Philadelphia he found Bernhard Wilmsen, who ran a Christmas tree ornament "factory" and employed three people. At the present time Wilmsen hires 225 people and has sold 25 million dollars' worth of Christmas tree ornaments to Woolworth.

As you enter a Woolworth store, you usually see on your right a candy show case and counter. Over this counter and similar ones in the company today go 250,000,000 pounds of candy a year; traveling in the opposite direction over the same counters is a profit of $3,000,000. But when Woolworth set out to buy candy for his seven stores, there was none to be had that cost less than 25 cents a pound wholesale. He found a candy-maker on Wooster Street in New York named D. Arnould. He bought 700 pounds of candy—which he had to sell at cost to maintain his price line.

In a single day the 700 pounds disappeared from the first 7 candy counters of the chain. And it was not long before Arnould's little shop had grown to a factory which could produce candy at low enough cost to net his customer—Woolworth—a handsome profit.

To centralize his buying in 1888, Woolworth set up a New York office—three desks, a bookkeeper (A. E. Ivie), a typist (Miss Tallman), and F. W. Woolworth—buyer for ten stores—at 321 Broadway.

In February, 1890, he left with B. F. Hunt, buyer for Horace Partridge & Company, for his first European buying trip. His letters to his employees reveal his development as a buyer. He wrote from Sonneberg, Germany:

> Sonneberg is the headquarters for dolls for the whole world, as nearly every doll of every description is made here or within a few miles from here, and this is the market. . . . We can find out more about the toy and china business of America here than at home. Here we find out what the other firms are buying and what they pay for the goods. I have found out where those Sailor Dolls that we sold so many of are made here and we can save considerable by buying them direct. We have also struck a firm where a certain house in Philadelphia gets a big line of toys that we have bought for several years. Nearly all the dealers on this side tell us who they sell to in America.

And in a letter dated March 17, 1890, he wrote, "We waded through mud ankle deep up hill and down in search of marbles and tree ornaments all day."

Another letter (April 17) gives the impression that buying is not all a matter of genius:

> If anyone likes hard work and lots of it, let them come here and look over samples all day, up and down stairs, jostled about in the crowded streets, halls and sample rooms. Every room from cellar to garret is a sample room. While in Sonneberg I gave a large order (over 1,500 gross) for Christmas tree ornaments, and I am pointed out in every corner as the big buyer of tree ornaments and they tackle me everywhere, trying to sell me more. . . .

From his general letters to his managers we can find no more than that Woolworth was a careful and imaginative buyer. He reached into the future—candy, Christmas tree ornaments, etc.—and he reached back into the past. He wrote to his managers in 1890:

> About six years ago, while I was running a little store in Dutch

Lancaster, I used to sell large quantities of scrap pictures to be pasted in books (by older sisters or kindly aunts of good little boys and girls) and I understand the craze for them is reviving again . . . . In Raphael Tuck's yesterday I was tempted and bought a sample lot of 40 kinds, 25 of each, at $7.50 per thousand, to sell at three for 5 cents.

But mostly Woolworth worked hard: "Today I made up my mind to find some bargains, if possible . . . and I have succeeded, although it was awful hard work . . . thermometers on wood, imported, $7.50 per gross. . . . Thermometers are not so good as the domestic goods, but make a bigger show."

The case study of early chain store business reveals other methods used to present customers with values at lower prices; cash sales, high turnover, careful location, an accurate accounting system—all played a part. A study of the early days of two small chains reveals interesting examples of the methods of the better merchants.

In 1903, H. P. McBride opened a grocery store with $500 capital. For a number of years he operated on a credit basis and built up an annual volume of $150,000. His cost of doing business was 22 per cent. In 1913 he opened two other stores on a credit basis. He had hoped to effect greater economies in buying and lower costs by increase of gross volume, but it did not work; his costs kept pace with his volume. His credit losses ran about one per cent. Good customers were slow from a credit standpoint, and he was forced to borrow from a bank to discount his bills. So he placed his business on a cash-and-carry basis. In 18 months, business increased from $150,000 on a credit basis to $450,000 in cash, and by 1920 he had 13 stores and was doing a million-dollar business with a cost of 13 per cent.

The bulk of his buying was done through jobbers and wholesalers. Total turnover was 15 times a year. More often than not he had turned over his goods before the jobber's bill came in. His managers were paid small salaries but large commissions. The following example illustrates his merchandising methods. McBride found that he was carrying 12 grades of coffee ranging from 30 to 50 cents a pound. After testing all grades, he found he could detect no difference. He thereupon worked up a blend of three coffees to sell at 33 cents a pound, and in so doing, he increased his coffee volume 400 per cent.

The Mr. Bower's Stores, Inc., of Memphis, Tennessee, was as

operated in 1914 a chain of 42 grocery stores which had grown from a single store founded with a capital of $500. Turnover was 40 times a year. Loss leaders, special offerings, and bargain days were not used. Every two weeks a price list was published containing mostly standard brands. In the words of Bowers:

> Elimination of large rentals, expensive delivery service, and credit losses enables us to sell at minimum prices. In addition, the prices quoted are based on a minimum profit for quick cash sales and no leaders or specials are offered, as we figure on reducing your grocery expenses about 20%, and our plan is the only method by which this can be accomplished.

Each store manager was a half partner in the business, drawing a small salary and getting half the profits of his store. Thus the reasons for the early success of the McBride stores and the Mr. Bower's stores lay, not in their large buying power, but in the ability of their proprietors to make full use of such simple and effective policies as cash and carry, maximum turnover, profit-sharing, and simplification of selling.

Three conclusions can be drawn from these slight incursions made into case studies of early chain stores:

(1) The factors for early chain store success were merely better methods of merchandising.
(2) These methods were, accordingly, open to all retailers.
(3) A few far-seeing and capable individuals developed and took advantage of these new methods, and from their efforts today's chain store systems grew.

Inasmuch as these factors included all aspects of storekeeping and were dependent on no assumptions as to size or integration, I believe they were open to all storekeepers who recognized them for what they were. Articles in *Printers' Ink* for the period 1910 to 1918 indicate that some independent retailers did recognize the factors at work.

In an article in *Printers' Ink* in 1916, Rolla Dake, a small-town storekeeper who was about to move his store, stated that he would seek a new location next to a chain store. "The secret of chain store success," wrote Mr. Dake, "seems to be the magic word, 'system!' They are not just storekeepers; they are merchants." Dake held that buying organizations were a detriment rather than a help for the small merchants. He thought it a poor policy to buy in large lots and insisted he could sell as cheaply as the chains.

He believed that the chains caused the independent to wake up and learn modern methods and the advantage of handling goods for which the advertiser had created a demand. To keep counters filled "but not junky," to price-tag all goods, to do away with high shelves and the phrase, "We are just out—will have it later," are chain methods; but there is no reason why a wide-awake independent could not adopt them. He concluded by stating that an independent could survive if he followed (1) right buying, (2) proper display, (3) real advertising, and (4) proper accounting.

Harry Minas started a cash-and-carry variety store in Hammond, Indiana. He did not know much about merchandising. A chain store opened across the street. The chain store sold one-dollar goods as a ten-cent loss leader. Through no fault of his own, Minas found himself still in business the following year. He did some thinking. Backed by the local bank, he leased a 55-foot-front store (the chain store measured 28 feet). He bought fixtures just a little better than the chain's. He picked up odds and ends for loss leaders. After successfully meeting chain competition, he offered the following as weapons which the independent could use: (1) a good location, (2) a modern store with up-to-date fixtures, (3) a well-balanced stock, (4) a knowledge of customer's needs, (5) a clean store and clean stock.

The birth of an industry holds many lessons. This is the more cogent in the early history of chain stores because here there were no powerful bankers. There was a Penney with $50 in his pocket, a Grant with $1,000, and a Woolworth with $300 in credit. And the shop next door had more capital, an established trade, and more experienced personnel. Why the stores of Woolworth and Grant were successful is mostly the story of a better merchant, a man who saw what the public wanted and worked hard to supply that demand in an efficient manner. In the words of Professor Paul Nystrom of Columbia,

> The explanation of the continued existence and success of any retail institution is to be found in the service that it renders its customers. Those retailers who best satisfy these requirements stand the best chance of survival. The requirements of retailing are the same regardless of the type of ownership or whether a store is a chain store or an independent store.

T. F. Bradshaw,
Harvard University.

Send Me a Business Historian

Business historians have been used in actual business and may have a future in large concerns where costly mistakes are repeated partly because the turnover of officials is great and constant. Experience in business is accumulated in large volume—and forgotten. Although exact situations in business do not recur, approximate combinations of problems are constantly turning up. A business historian and a business history office, if they could prevent the repetition of mistakes, would be economical in the long run even though they would involve a continuous expense. Both the Dennison Manufacturing Company and the American Telephone and Telegraph Company have had business history offices. Many a firm has archives and a custodian of documents. Old and recent records have been much used by the legal and advertising departments of large concerns, but it is doubtful whether any business firm in America has had both the vision to establish a business history office and the wisdom to make adequate use of it.

Recently a letter of inquiry has been received, a letter which raises the question as to what a business historian should do and whether we could provide one with adequate training and equipment. The body of the letter written in reply to this inquiry is printed herewith because it may be of some general interest:

I have thought further about the question of a business historian. Such an historian might be placed in a large manufacturing firm such as General Electric, in a large store such as Macy's, in a public utility, in a railroad, or in a consultant's office. Any statement made about the job of the historian would vary according to the tasks he was given to do.

Although a business historian should be of service to various departments of a firm, his major usefulness lies in policy-formulation in the areas of marketing, finance, labor relations, and public relations.

I am going to assume that the business historian will operate in a large manufacturing concern or in a consulting firm, rather than as a free lance. With this in mind, I should like to make the following categorical points, none of which is dealt with adequately:

1. The historian should certainly have some training in history and business, and preferably in business history. Certainly he should not be simply an economist, for he would, by training, be unable to do the work.
2. The historian must begin by studying the history of the firm, and as soon as he makes adequate progress should begin the recording of the history.
3. No extraneous tasks should be put upon such an historian for the first two or three years. To do this would simply defeat the main purpose.
4. The historian should study the industry of which the firm is a part.
5. Already competent in general business history, he should continue carefully to follow current business historical developments.
6. He should devise a plan for securing current material and for keeping the material in the business history office up to date.
   (a) All essential financial reports and all departmental and interdepartmental reports should be filed currently.
   (b) Records should be kept of personal interviews with executives, departmental heads, and others.
   (c) Each year a summary of the main events should

be made so as to provide over the years a running history or narrative.

7. The business historian should work closely with the accounting and statistical departments as well as with the secretary of the firm, the advertising department, and the legal department.
8. He should have access to the president or vice-president for the purpose of presenting the facts and trends which he has discovered.
9. He should be allowed to arrange his own affairs so that he would have time to interpret the work done in the business history office. It seems quite clear that a mere presentation of facts would be inadequate. What is required seems to be an interpretation of facts and trends, together with an exposition of the implications for policy and management.

The instructions to the business historian should indicate that he must insist upon the following:

1. That he should have adequate time to study and reflect.
2. That all information should be given to him and that he should attend the directors' meetings. (Here is a fine test of the seriousness of purpose underlying the whole proposal.)
3. That his job is not only one of trust, but one of candor without which the effort would be useless.
4. That the business historian should be in a position to demand a hearing both for getting information and for presenting his point of view. If he cannot sell his stuff, he may as well not start.

I assume that one of the main jobs of the business historian would be to prevent a firm from repeating its costly mistakes. If the business historian is not used in major policies, the firm had better save its money. If the firm is not willing to choose an able man who has the ability to sell his work, nothing will be done. A mere clerical historian would be a useless frill.

"Rich as Croesus"

Who was Croesus? How rich was he? And how did he acquire the treasure that has made his name live to this day as a measure of great wealth?

Croesus was the last king of Lydia, an empire which he in 560 B. C. inherited from his father, who had brought under the rule of that kingdom many states in Asia Minor. Croesus himself extended the boundaries of Lydia to include most of Asia Minor, though lacking a navy he failed to take the rich islands off the coast. In 546 he and his empire, despite an alliance with Babylonia, Egypt, and Sparta, fell under the rule of the conqueror from the East, Cyrus the Great of Persia. Legend is not clear as to the fate of Croesus. It is said that he lived to govern a territory under his Persian conqueror, but of his riches we hear no more.

How rich was Croesus? No record has been found of the weight of his gold, of his jewels, his acres, or his flocks. We know that he had vast stores of treasure at his royal residence at Sardis. He made great gifts to the oracle at Delphi. He was rich enough to become a synonym for wealth throughout the Greek world, to be looked upon as the richest man of his time in the world that knew him. Since wealth is relative, that is a truer measure of his standing than pounds of gold would be.

How did Croesus acquire this great wealth? Much he inherited from his father and much he gathered for himself. Historians say that he was enriched by the mines he controlled and by gold dust gathered from the river Pactolus. He is also said to have profited from trade, though there is no record of his actually trading as a merchant, nor indeed of the investment and administration of his wealth for the production of further wealth. Did he merely hoard

his treasure, as Orientals have done from ancient times to the present?

The greater part of his wealth may have come from his position as a ruler. Sardis, the capital of Lydia, was the center of a productive agricultural region, and nearby were rich mineral resources. That part of Asia Minor which Croesus controlled contained many prosperous cities, including busy ports of Asia Minor. Lydia, moreover, was the link that connected the Asiatic peoples to the East with Asia Minor and Europe. Indeed, Sardis, itself a great market town famous for its wealth and a brilliant center of art and letters, lay on the route of a great East-West caravan trade.

Like the Hittite kings of a much earlier period and King Solomon nearer his own time, Croesus probably knew how to mobilize the resources of his empire to his own advantage. Royal monopolies no doubt contributed largely to his income; the collection of taxes and tribute stood first. For this Croesus gave something important in return—he is said to have left to the various states of Asia Minor their own institutions and government while he gave them many years of peace under his protection. How far he used his royal prerogative and strength to increase his wealth beyond what might be a reasonable return, there is no way of knowing and no standard for measuring.

There is another explanation of Croesus' wealth. An old tradition has it that when the flourishing commercial cities of the coast of Asia Minor were captured by the Lydian forces there was an accession of wealth by seizure. Miletus, Ephesus, and Smyrna probably held much wealth in gold, silver, precious stones, and silks. This points to the early development in Asia Minor of mercantile capitalism, for the traveling merchant did not acquire great stores of rich goods in one place; it also fits in with our knowledge of great cities in history. The robbing of one or more rich sedentary merchants might well have enriched Croesus immensely—Sadyattes, a rich Lydian merchant, is said to have had his property confiscated by Croesus.

These two views of the source of Croesus' wealth are not necessarily antithetical. The truth may very well be that there was some of each method, the acquisition of wealth by seizure and the steady increase from royal monopolies and regular taxes and tribute. Future historians may learn more about the actual source of his wealth than we at present know.